

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE
PROVINCIAL LEGISLATURE AND THE COUNCIL ON SIYANDA DISTRICT MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Siyanda District Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa and section 126 (3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified audit opinion

Revenue

7. The accuracy of the revenue disclosed as R63 268 014 (2009: R47 119 517), in the financial statement could not be confirmed as revenue was overstated by an amount of R2 855 623, as a result of incorrect accounting of discount allowed.
8. The receipts amounting to R543 922, could not be supported with appropriate supporting documentation.
9. The municipality made a profit on the sale of assets amounting to R423 668 during the period under review. However this was incorrectly disclosed as profit on sale of R72 732 and a loss on sale of R396 200, thus resulting in an overstatement of expenditure and understatement of revenue from exchange transactions.

Property, Plant & Equipment

10. I was unable to verify the completeness of property plant and equipment, stated at R47 701 527 (2009: R46 064 490) in the financial statements as the municipality did not include the work in progress amounting to R3 177 196, in relation to the capital expenditure transferred from grants and subsidies.
11. Disposals of property plant and equipment amounting to R164 000 was not included in the in the asset register.

The entity's records did not permit the performance of alternative audit procedures regarding the completeness of capital assets and the occurrence of capital expenditure.

Payables

12. The creditors amount of R4 503 303 (2009: R5 493 233) included in the annual financial statements is understated as the municipality did not accrue for retention funds and invoices in respect of goods and services received amounting to R992 929. If these invoices had been accrued for, the effect would have been to reduce the surplus for the period, and the accumulated surpluses by R992 929 and to increase the accrued liability in the statement of financial position by an equal amount.
13. A suspense account of R11 598 312, could not be supported by appropriate audit evidence, and this was not cleared at year-end.
14. Included in the suspense account of R11 598 312, is an amount of R9 119 257, relating to employee costs, resulting in employee costs being understated by the said amount.
15. The entity records did not permit the performance of alternative audit procedures regarding the valuation of payables.

Receivables

16. I was unable to verify the valuation of receivables from exchange transactions disclosed as R2 900 087 (2009:R7 677 027) as the balance included a credit balances to an amount of R3 864 077 which could not be supported with appropriate supporting documentation, and an amount of R1 530 000 was included in receivables as provision for fruitless and wasteful expenditure, resulting in receivables being overstated by R5 394 976.
17. The entity records did not permit the performance of alternative procedures regarding the valuation of receivables.

Commitments

18. The municipality does not have a proper contract management system in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were identified and properly recorded.

Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R3 953 656 (R4 203 200), as stated in note 35 to the financial statements.

Unauthorised expenditure

19. An amount of R3 256 221 was identified as unauthorised expenditure during the audit. The unauthorised amount was due to over expenditure by the municipality outside the agreement between the municipality and the Department of Roads and Public Works. The municipality opted not to correct this error.

Fruitless and wasteful

20. The completeness of fruitless and wasteful expenditure disclosed as R214 in note 31.8 to the financial statements could not be confirmed, as undisclosed fruitless and wasteful expenditure amounting to R180 204 was detected during the audit process.

The weaknesses in the municipalities system prevented me from determining the extent of the error or performing alternative procedures.

Irregular expenditure

21. The completeness of irregular expenditure disclosed as R1 221 228 (2009: R1 045 888), in the financial statement under note 31.7, could not be determined as undisclosed irregular expenditure amounting to R19 033 765 was identified during the audit process.

This expenditure related to the procurement of various goods and services and was considered to be irregular due to non-adherence to the supply chain management regulations. The weaknesses in the system prevented me from determining the extent of the error or to perform alternative procedures.

Contingent Liabilities

22. The completeness of contingent liabilities disclosed as R1 635 000 for the 2009 financial year could not be confirmed as the amount could not be supported with sufficient documentation.

Provisions

23. The valuation of provisions disclosed as R9 284 956 (2009: R11 596 115), in note 8 to the financial statements could not be determined as supporting documentation amounting to R7 479 027 was not obtained for audit purposes.

Provision for leave pay amounting to R902 396, was not raised during the year.

The entity records did not permit the performance of alternative procedures regarding the valuation of provisions.

Qualified opinion

24. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, these financial statements present fairly, in all material respects, the financial position of Siyanda District Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended are prepared, in all material respects, in accordance with the SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

25. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

26. As disclosed in note 29 to the financial statements, the corresponding figures for the 2008/09 financial statements have been restated as a result of errors discovered during 2009/10 financial year in the financial statements of the municipality at, and for the year ended 2008/09.

Additional matters

27. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

28. The gearing ratio is incorrectly calculated using an amount referred to as Net debt amount.
29. The staff budget expenditure amount disclosed does not agree to the approved budget amount of R34 462 138.
30. The assessment of arrears on the consumer debtors amount is not consistent with ageing which as disclosed in the trade receivables from exchange transactions note in the annual financial statements in note 3.

31. The amounts disclosed as capital transfers to revenue and operational transfers to revenue, do not correspond to the transfer amount per note 20 in the financial statements.
32. The amount disclosed for revenue relating to other income does not agree to amount disclosed per note 21 in the Financial statements.

Unaudited supplementary schedules

33. The supplementary information set out on pages 85 to 90 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

34. In terms of the PAA of South Africa and General notice 1570 of 2009 issued in Government Gazette No. 32758 of 27 November 2009, I include below my findings on the report on predetermined objectives, compliance with the MFMA, DORA, and financial management (internal control).

Report on predetermined objectives

35. I could not conduct an audit of performance against predetermined objectives, as the municipality did not prepare an annual performance report as required by section 46 of the MSA.

Compliance with laws and regulations

Municipal Finance Management Act, No. 56 of 2003

36. There was no evidence that the accounting officer reviewed the municipality's performance against pre-determined objectives during 2009/2010 as required by sec 72 of the MFMA.
37. No evidence could be provided to support the date of submission to the Mayor or Treasury of the accounting officers' review of performance against pre-determined objectives as required by sec 72(1)(b) of the MFMA.
38. The Municipality did not supply any evidence to support its compliance with MFMA sec 32(4), which requires that reports detailing irregular, fruitless and wasteful expenditure be submitted to the MEC, Mayor and Auditor-General.
39. The Municipality contravened sec 71 of MFMA by not completing monthly reports on the state of the municipality's budget.
40. Payments amounting to R1 389 577 were found to not have been made within 30 days from receipt of invoice as required by sec 65(2)(e) of MFMA.

Supply Chain Management regulations

41. The Municipality did not obtain all the required quotations as stipulated in Supply Chain Management regulations 12, 16 & 17.
42. The Municipality did not advertise tenders amounting to R7 249 509 on the municipality's website as required by Supply Chain Management regulation 22(1).
43. The Municipality did not obtain declarations of interests for tenders allocated amounting to R18 036 275 as required by Supply Chain Management regulation 13, 21 & 44.

44. The Municipality had no Bid Specification Committee in place for the year under review as required by Supply Chain Management regulation 27.

DORA

45. The Municipality did not submit a performance evaluation to the transferring officer of programmes funded by allocations of DORA as required by section 12 of the act.

INTERNAL CONTROL

46. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, DORA, Municipal Structures Act and Municipal Systems Act, but not for the purposes of expressing an opinion on the effectiveness of internal control.
47. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraphs, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

48. Management did not ensure that adequate accounting and internal control policies exist at the municipality resulting in various cases of non-compliance to legislation and accounting guidelines
49. The accounting officer does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities. Although the accounting officer exercises oversight responsibility at the municipality, there is no formal method used on a monthly basis to ensure that all the responsibilities of the chief financial officer are performed.
50. The municipality does not have proper monthly reposting which is prepared and reviewed by the Chief financial officer and the results thereof reported to the accounting officer.
51. Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting. The municipality has a large number of suspense accounts which are not cleared on a monthly basis and no reconciliations are performed for assets and liabilities to ensure accurate and proper records are kept.
52. Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes, in relation to the analyses of the root causes for the suspense accounts resulting from the lack of proper and timeous record keeping of the municipality.
53. An IT strategic plan, IT governance policies and procedures, User account management procedures and an IT steering committee were not in place and the system administrators/controllers' activities were not reviewed by an independent person.
54. There is a Lack of segregation of duties between IT staff and user functions were not in place. Access request forms were not completed. Users' access was not periodically reviewed to ensure that it remained commensurate with their job description and security parameter settings for the operating system were not set to provide optimal security.
55. Change control procedures were not implemented, physical access to sensitive areas was not controlled and environmental controls such as water and smoke detectors and fire suppression system was not maintained, a disaster recovery plan was not in place and backup standards and procedures were not implemented.

Financial and performance management

56. The financial statements are not adequately reviewed prior to submission thereof for audit purposes. As a result the financial statements were subjected to material amendments resulting from the audit
57. The information systems of the municipality were not appropriate to facilitate the preparation of the financial statements, as there were material disclosures omitted from the financial statement.
58. The accounting department does not sufficiently collate the information required from the different divisions to facilitate the timeous and accurate recording of transactions on a monthly basis.
59. There is insufficient performance of reconciliations on a monthly basis to identify any errors and correct the same.
60. Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting throughout the year.
61. The financial statements for 2009/10 were submitted and withdrawn in December 2011, due to the poor quality of the AFS. The resubmitted financial statements and performance information were subject to material amendments resulting from the audit.
62. The financial statements and other information to be included in the annual report are not properly reviewed for completeness and accuracy prior to submission for audit.
63. The accounting system in use is not appropriate to facilitate the preparation of the financial statements and performance reports in line with GRAP, which has resulted in numerous suspense accounts.
64. Security management and administration was inadequate to ensure the security of the network environment.

Governance

65. The audit committee was involved in the review of the AFS prior to submission as evidenced by the minutes of meetings. However the withdrawal and resubmission of the AFS due to the poor quality of the financials and the subsequent material adjustments on the resubmitted AFS indicates the insufficiency of this review prior to submission for audit.
66. The reports of the internal audit for the period under review indicated a decreased focus on matters related to financial and performance reporting. There was no indication that internal audit reviews the internal control/lack of internal controls to support the accurate and timeous reporting of the financial transactions of the municipality and the monthly review thereof.

67. The risk assessment is performed by internal audit, which has resulted in the risk assessment process of the municipality not being adequate to identify and address the assessed risks in order to ensure that internal controls are in place to prevent / detect and correct material misstatements in financial reporting and reporting on predetermined objectives

Auditor - General
Kimberley

19 September 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence